

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SAJ-01 SAM-01 SWF-01 AID-05 CEA-01

CIAE-00 COME-00 EB-07 FRB-01 INR-05 NSAE-00 RSC-01

CIEP-01 SP-02 STR-01 TRSE-00 LAB-04 SIL-01 OMB-01

DODE-00 PM-03 H-01 L-02 NSC-05 PA-01 PRS-01 SS-15

USIA-06 AGR-05 NEA-06 AF-04 EA-06 /101 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6791

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 16677

E.O. 11652: GDS

TAGS: EGEN, EEC, UK

SUBJECT: THE STATE OF PLAY IN EC RENEGOTIATION

REF: (A) LONDON 16524, (B) LONDON 16057, (C) LONDON
14939

SUMMARY: IT SHOULD NOT PROVE UNDULY DIFFICULT FOR
THE UK TO SETTLE THE MAIN ISSUES AND COMPLETE THE
PROCESS OF EC RENEGOTIATION IN THE FIRST FEW MONTHS
OF NEXT YEAR. THE TERMS OF BRITISH MEMBERSHIP HAVE
ALREADY CHANGED FUNDAMENTALLY -- NOT, IT MUST BE SAID,
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BECAUSE OF WHAT THE LABOUR GOVERNMENT HAS DONE, BUT

BECAUSE OF THE CHANGES THAT HAVE TAKEN PLACE DURING THE PAST TWO YEARS IN THE COMMUNITY ITSELF AND IN THE WIDER WORLD ENVIRONMENT. HAROLD WILSON STILL NEEDS A FEW MORE CONCRETE EC "VICTORIES" BETWEEN NOW AND EARLY APRIL IN ORDER TO HOLD OFF THE ANTI-MARKETEERS. THIS TELEGRAM DISCUSSES THE UK'S SEVEN BASIC RENEGOTIATION AIMS WHICH WILSON REITERATED IN A SPEECH OF DECEMBER 7, AND SHOWS WHAT PROGRESS HAS BEEN MADE AND WHAT WORK REMAINS TO BE DONE. THE MAIN POINTS TO BE SETTLED RELATE TO THE "CORRECTING MECHANISM" FOR THE EC BUDGET, AGRICULTURE, REGIONAL POLICY, STEEL AND VAT HARMONIZATION. THE ANTI-MARKETEERS IN THE CABINET WILL NO DOUBT TRY TO RAISE ADDITIONAL ISSUES, PROBABLY IN RELATION TO PARLIAMENT'S FREEDOM TO MANAGE THE BRITISH ECONOMY -- THE MOST EMOTIVE POINT FOR THE LABOR PARTY'S LEFT WING. WILSON AND CALLAGHAN WILL TRY TO LIMIT THE ISSUES TO THE ONES NOW ON THE TABLE, CLAIMING CONSISTENCY WITH LAST FEBRUARY'S PARTY MANIFESTO. WE EXPECT THAT THEY WILL SUCCEED, AND THAT NO MAJOR LAST MINUTE ISSUES WILL SCUTTLE A SUCCESSFUL COMPLETION OF RENEGOTIATION. IT REMAINS TO BE SEEN, HOWEVER, WHAT VERDICT THE BRITISH PEOPLE WILL THEN GIVE IN THE REFERENDUM. END SUMMARY

1. IN REFTEL A, WE PREDICTED THAT HAROLD WILSON WILL, IN THE END, COMMEND THE RESULTS OF EC RENEGOTIATION TO THE BRITISH PEOPLE AND CARRY HIS GOVERNMENT AND PARTY WITH HIM.

2. BETWEEN NOW AND THEN, THE ACTUAL PROCESS OF RENEGOTIATION WILL HAVE TO BE COMPLETED. AN IMPORTANT BREAKTHROUGH WAS MADE AT THE PARIS SUMMIT ON THE KEY QUESTION OF BRITAIN'S CONTRIBUTION TO THE EC BUDGET. OTHER ISSUES STILL HAVE TO BE SETTLED, AND THIS TELEGRAM DESCRIBES WHAT THEY ARE.

3. IN OUR VIEW, IT SHOULD NOT PROVE UNDULY DIFFICULT FOR THE UK TO SETTLE THE MAIN ISSUES AND COMPLETE RENEGOTIATION IN THE FIRST FEW MONTHS OF NEXT YEAR. THE TERMS OF BRITISH MEMBERSHIP HAVE ALREADY CHANGED
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FUNDAMENTALLY SINCE JANUARY 1973 -- NOT, IT MUST BE SAID, BECAUSE OF RENEGOTIATION, BUT BECAUSE OF CHANGES THAT HAVE TAKEN PLACE SINCE THEN IN THE COMMUNITY AND IN THE WIDER WORLD ENVIRONMENT. THERE IS, FOR EXAMPLE, NO MORE CHEAP COMMONWEALTH FOOD. /WORLD AGRICULTURAL PRICES HAVE IN SOME CASES MOVED ABOVE CAP SUPPORT PRICES. THE PROSPECT OF A RIGID ECONOMIC AND MONETARY UNION HAS RECEDED INTO THE DISTANT FUTURE. AS THE

WORLD ECONOMIC CRISIS DEEPENS, THE COMMUNITY CANNOT AFFORD TO BE AS INWARD-LOOKING AS IT HAS BEEN IN THE PAST.

4. NEVERTHELESS, THE BRITISH GOVERNMENT WILL NEED A FEW RENEGOTIATION "VICTORIES" BETWEEN NOW AND APRIL IN ORDER TO HOLD OFF THE ANTI-MARKETEERS. THE PRIME MINISTER REITERATED HIS BASIC RENEGOTIATION AIMS IN A SPEECH TO A GROUP OF LABOUR PARTY MAYORS ON DECEMBER 7 (REF B). THESE AIMS FOLLOWED ALMOST WORD-FOR-WORD THE ONES THAT WERE SET OUT IN THE LABOUR PARTY'S ELECTION MANIFESTO OF LAST FEBRUARY. THE FOLLOWING

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FM AMEMBASSY LONDON

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INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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IS OUR ASSESSMENT, BASED ON CONVERSATIONS WITH VARIOUS UK OFFICIALS, OF THE PROGRESS THAT HAS BEEN MADE IN EACH OF THE SEVEN AREAS, AND OF THE WORK THAT STILL HAS TO BE DONE:

A) MAJOR

CHANGES IN THE CAP. THE UK REGARDS AS RENEGOTIATION ACHIEVEMENTS THE NEW FLEXIBILITY IN THE CAP FOR BEEF, THE EC'S SUBSIDY ON SUGAR IMPORTS, AND THE COMMITMENT TO TAKE A THOROUGH "STOCKTAKING" OF THE CAP EARLY NEXT YEAR. AT LEAST A FEW MORE CHANGES IN THE CAP THAT CAN BE SHOWN TO BENEFIT THE UK ARE NEEDED. THESE COULD COME FROM THE STOCKTAKING OR FROM THE CURRENT DISCUSSION
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OF 1975-76 SUPPORT PRICES. SEE REF C FOR A MORE DETAILED DISCUSSION OF THE UK'S RENEGOTIATION OBJECTIVES ON AGRICULTURE.

B) NEW AND FAIRER METHODS OF FINANCING THE COMMUNITY BUDGET. THE "CORRECTING MECHANISM" CALLED FOR IN THE EC SUMMIT COMMUNIQUE NOW HAS TO BE ESTABLISHED. THE BRITISH ARE ALREADY WORKING CLOSELY WITH THE COMMISSION, WHICH IS EXPECTED TO COME UP WITH A PROPOSAL IN JANUARY. MORE HARD BARGAINING, ESPECIALLY WITH THE FRENCH, IS EXPECTED.

C) REJECTION OF ANY AGREEMENT THAT WOULD REQUIRE INCREASED UNEMPLOYMENT FOR THE SAKE OF A FIXED PARITY. WITH THE VIRTUAL ABANDONMENT OF THE WERNER PLAN FOR ECONOMIC AND MONETARY UNION, THERE IS NO PRESSURE TO MOVE TOWARD FIXED PARITIES. AS ONE FCO OFFICIAL PUT IT, THIS ISSUE IS "A DEAD DUCK."

D) THE RETENTION BY PARLIAMENT OF POWERS NEEDED TO PURSUE EFFECTIVE REGIONAL, INDUSTRIAL AND FISCAL POLICIES. THE UK WANTS TO ENSURE THAT THE GUIDELINES WHICH THE EC COMMISSION IS DEVELOPING TO ELIMINATE THE TRADE-DISTORTING EFFECTS OF MEMBER STATE REGIONAL AIDS WILL NOT FORCE THE UK TO MAKE SIGNIFICANT CHANGES IN ITS OWN REGIONAL DEVELOPMENT PROGRAMS. THE GUIDELINES ARE EXPECTED WITHIN THE NEXT FEW MONTHS. ACCORDING TO PRESS ACCOUNTS, THE INITIAL COMMISSION DRAFT IS NOT HELPFUL TO THE UK. ON INDUSTRIAL POLICY, THE SECSTATE FOR INDUSTRY, ANTHONY WEDQWOOD BENN (A LEADING ANTI-MARKETEER), IS CLAIMING THAT THE CHANGES IN LEGISLATION WHICH THE UK HAD TO MAKE IN ORDER TO JOIN THE COAL AND STEEL COMMUNITY HAVE LEFT THE GOVERNMENT WITHOUT SUFFICIENT POWERS TO REGULATE BRITAIN'S STEEL INDUSTRY. IT IS NOT YET CLEAR HOW MUCH THIS REAR GUARD ACTION BY BENN WILL COMPLICATE THE RENEGOTIATION PROCESS. AS REGARDS FISCAL POLICY,

THE ADOPTION OF COMMON EC RULES IS NOT CONTEMPLATED UNTIL THE LATTER STAGES OF ECONOMIC AND MONETARY UNION. THIS IS NOT, THEREFORE, A PROBLEM THAT WILL HAVE TO BE DEALT WITH IN RENEGOTIATION.

E) AN AGREEMENT ON CAPITAL MOVEMENTS WHICH PROTECTS THE UK'S BALANCE OF PAYMENTS AND FULL EMPLOYMENT POLICIES. THE UK HAS OBTAINED AUTHORIZATION UNDER CONFIDENTIAL

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ARTICLE 108 OF THE EEC TREATY TO DEFER THE LIBERALIZATION OF CAPITAL MOVEMENTS REQUIRED UNDER ARTICLE 124 OF THE ACCESSION TREATY. THE BRITISH ARE CONFIDENT THAT THEY WILL OBTAIN AUTHORIZATION TO DEFER THE FURTHER LIBERALIZATIONS THAT ARE SCHEDULED FOR 1975. F) SAFEGUARDING THE INTERESTS OF COMMONWEALTH AND DEVELOPING COUNTRIES, INCLUDING COUNTRIES NOT ASSOCIATED WITH THE EC. THE BRITISH CONSIDER THAT SIGNIFICANT PROGRESS HAS ALREADY BEEN MADE IN THIS AREA. IN JULY THE COUNCIL ADOPTED A RESOLUTION CONFIRMING THE PRINCIPLE OF GRANTING EC AID AND TECHNICAL ASSISTANCE TO NON-ASSOCIATES' A COUNCIL DECISION IN OCTOBER AUTHORIZED THE COMMISSION TO OPEN NEGOTIATIONS WITH PAKISTAN, BANGLADESH AND SRI LANKA FOR TRADE COOPERATION AGREEMENTS ALONG THE LINES OF THE EC AGREEMENT WITH INDIA' A MAJOR COMMISSION PAPER ON THE EC'S FUTURE AID POLICY HAS AFFIRMED THAT ALL THE POOREST COUNTRIES, BOTH ASSOCIATES AND NON-ASSOCIATES, SHOULD BE TREATED ALIKE. THE COMMUNITY'S GSP SCHEME HAS BEEN MADE MORE GENEROUS. THE EC-ACP NEGOTIATIONS SHOULD BE COMPLETED EARLY NEXT YEAR, HOPEFULLY WITH ADEQUATE GUARANTEES FOR DEVELOPING COMMONWEALTH SUGAR EXPORTERS. THE ONLY MAJOR COMMONWEALTH TRADE PROBLEM THAT REMAINS TO BE TACKLED IN THE TIME FRAME OF RENEGOTIATION IS THE ARRANGEMENT THAT WILL APPLY TO BUTTER AND CHEESE IMPORTS FROM NEW ZEALAND AFTER THE EXPIRATION OF THE TRANSITIONAL ARRANGEMENTS ESTABLISHED BY THE EC ACCESSION TREATY. G) NO HARMONIZATION OF VAT THAT WOULD REQUIRE THE UK TO TAX NECESSITIES. WHILE THE HARMONIZATION OF VAT RATES IS A MATTER FOR THE DISTANT FUTURE, THE COUNCIL

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IS CURRENTLY CONSIDERING A DIRECTIVE DEALING WITH THE HARMONIZATION OF THE VAT BASE WHICH DEFINES THE ITEMS WHICH ARE SUBJECT TO VAT. THE BRITISH WANT EITHER TO DELAY ADOPTION OF THIS DIRECTIVE OR TO ENSURE THAT IT PROVIDES FOR ZERO RATING FOR NECESSITIES (MAINLY FOOD)'

5. DURING THE NEXT FEW MONTHS, THE ANTI-MARKETEERS IN THE CABINET WILL NO DOUBT TRY TO RAISE ADDITIONAL ISSUES FOR RENEGOTIATION -- PROBABLY IN CONNECTION WITH THE RETENTION OF PARLIAMENTARY SOVEREIGNTY OVER THE BRITISH ECONOMY, WHICH IS AN EMOTIVE POINT
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FOR THE LEFT WING OF THE LABOUR PARTY. WILSON AND

CALLAGHAN WILL CONTINUE TO TRY TO LIMIT THE RENEGOTIATION ISSUES TO THE ONES DESCRIBED ABOVE, AND IN SO DOING THEY WILL CLAIM TO BE THE TRUE DEFENDERS OF THE FAITH -- I.E., THE PARTY MANIFESTO. WE EXPECT THAT THEY WILL SUCCEED, AND THAT NO LAST MINUTE ISSUES WILL SCUTTLE A SUCCESSFUL COMPLETION OF RENEGOTIATIONS. IT REMAINS TO BE SEEN, HOWEVER, WHAT VERDICT THE BRITISH PEOPLE WILL THEN GIVE IN THE REFERENDUM TO BE HELD ON THE RESULTS.

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Message Attributes

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Disposition Action: RELEASED
Disposition Approved on Date:
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